A5173-5.3F 12/91

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RESEARCH BULLETIN

Older Americans and Their Health Coverage

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October 1989

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Executive Summary

This Research Bulletin reports findings from a national telephone survey of 500 elderly Americans conducted in April and May 1989. The elderly responded to a host of questions including: (1) knowledge of the catastrophic legislation; (2) concerns about remaining gaps in Medicare coverage; (3) satisfaction with changes in Medicare brought about by the recent legislation; (4) private health coverage and satisfaction with it; and (5) plans for dropping private coverage.

Survey results indicate that despite the extensive publicity, the elderly still know very little about the basic aspects of the catastrophic legislation. The average percentage of correct answers for nine questions on recent changes was only 28 percent.

The elderly are very worried about incurring any out-of-pocket costs and strongly desire complete coverage with no coinsurance or deductibles. For example, 66 percent are "very concerned" about having to pay for the first $600 of prescription drug costs not covered by Medicare.

Medicare beneficiaries are substantially less satisfied with the cost and benefits of the Medicare program today than they were prior to the catastrophic legislation. More than 70 percent expressed satisfaction with the cost of the Medicare program before the legislation, but only 30 percent are satisfied after the legislation.

More than 78 percent of the older people in the sample had private insurance coverage to supplement their Medicare coverage. (Individuals with dual Medicaid-Medicare coverage were excluded from the sample.) Nearly 90 percent of owners report satisfaction with benefits, while 75 percent were satisfied with their cost of private coverage. Despite the recent catastrophic legislation, 83 percent of the elderly plan to renew their policies, 2 percent plan to drop them and the remaining 15 percent "don't know." The "informed" segment of the sample were equally likely to renew their policies as those who were not briefed about changes in Medicare benefits. Fear of any remaining costs not covered by Medicare is a major reason why the elderly plan to retain their private coverage. Hence, insurance companies that provide dependable coverage against these expenses will continue to attract the older population.

Older Americans and Their Health Coverage

In 1988, Congress made substantial changes in the Medicare program — the first major changes in the benefit and financing packages that beneficiaries have seen in the nearly 25 years since the program was enacted. Rather than rejoicing over improved benefits, however, there has been a great deal of public opposition to the Medicare Catastrophic Coverage Act among the elderly. Complaints center largely on its financing methods, but also on what some people consider to be its shortcomings in protecting older Americans from catastrophic health care expenses.

There are now a number of proposals before Congress to revamp the legislation. These include making the additional benefits and payments (monthly premiums and additional income taxes) voluntary, lowering the maximum income tax liabilities, spreading the cost of program benefits beyond the elderly and even repealing the new benefits. It is difficult for Congress to act, however, since it is unclear whether the public opposition is that of a vocal (and relatively wealthy) minority or, alternatively, is broad-based. (As this *Research Bulletin* goes to press, Congress is poised to enact changes in the Medicare Catastrophic Coverage Act with any resulting legislation holding broad implications for this study.)

Beyond the issue of the legislation's popularity, another issue of concern is what spillover effects, if any, will be felt in the private insurance market. More than 70 percent of Medicare beneficiaries own private health insurance to supplement Medicare,[1] an estimated $13 billion market in 1986.[2] A question raised by the legislation is whether beneficiaries will now drop their private health insurance coverage because they believe Medicare's new benefits will provide sufficient protection.

◆ The Medicare Catastrophic Coverage Act

The Medicare Catastrophic Coverage Act makes a number of changes in both program benefits and financing that will be phased in over the next several years. The three most important new benefits involve hospital care, Part B expenses (primarily physician care) and prescription drugs. Beginning in 1989, beneficiaries are no longer responsible for substantial daily copayments for hospital stays exceeding 60 days. Furthermore, they pay a $560 hospitalization deductible only once in a single calendar year. Starting in 1990, there will be a $1,370 annual cap placed on Part B copayments. Prescription drug coverage — an entirely new Medicare benefit — will be phased in between 1990 and 1993; ultimately,

Medicare will pay 80 percent of drug costs after an annual deductible of approximately $600 is met.

There are other benefit enhancements as well, most notably liberalization of Medicaid regulations that allow the spouse of a nursing home resident to retain enough income to avoid impoverishment. Although there were some modest changes in the Medicare nursing home benefit, one of the primary complaints about the legislation is that it does not extend Medicare coverage to long-term nursing home care. This type of care is most likely to impoverish the elderly.[3]

Unlike prior Medicare benefits, the new ones are to be financed entirely by program beneficiaries. Most of the cost will be funded through the controversial supplemental premium, which is actually an additional amount of income tax to be paid by an estimated 40 percent of the elderly. The maximum tax liability, which will be paid by less than 10 percent of the elderly, is scheduled to be $800 per person ($1,600 for a couple). In addition to the supplemental premium, the Part B monthly premium charged to all program beneficiaries whose incomes are above the poverty level will increase by $4.

After the benefits are fully phased in, the following expenses will still be borne by beneficiaries (or by their private insurance policies): the initial $560 hospital deductible for Part A; the $75 Part B deductible and 20 percent coinsurance payment until annual expenses of $1,370 are incurred; all nonassigned physician charges above what Medicare deems to be reasonable; the first $600 of prescription drug costs; and 20 percent of all additional prescription drug costs during a year.

◆ Survey Methodology

Survey results are from a telephone survey of 500 Medicare beneficiaries which was conducted in April and May of 1989 to determine their level of understanding about and satisfaction with Medicare and private supplemental insurance. The survey, carried out by Response Analysis, Inc., of Princeton, New Jersey, was based on a nationally representative sample chosen using random-digit dialing.

Because only those households with at least one person age 65 or more and on Medicare were accepted into the sample, only a small fraction of households contracted were eligible. Individuals who were dually eligible for Medicare and Medicaid were not interviewed because they normally do not purchase private health insurance to supplement Medicare.

Response Analysis was able to screen eligibility information for 71 percent of the telephone numbers of residential households with working telephones. The majority of the remaining 29 percent hung up before or during the screening interview. Of the eligible households, 85 percent did not have anyone age 65 or older, and a few others were excluded because the elderly residents were not eligible for Medicare or were dually eligible for Medicare and Medicaid. Of the households that met all of our eligibility standards, 68 percent completed the interview. On average, there were six calls necessary per completed interview; the interviews themselves lasted an average of 19 minutes. To ensure the representativeness of the sample, when there was more than one person age 65 or older in the household, the person with the next birthday was chosen for the interview.

Of the 500 completed interviews, 391 (78 percent) owned private insurance to supplement Medicare and 109 did not. We employed a split-sample technique to assess the impact of respondents' level of understanding of the recent changes in Medicare. Interviewers briefed half of the private insurance owners on the details of the new legislation's benefits, but did not brief the other half. Instead, interviewers quizzed them to determine their level of understanding. Nonowners also took the quiz.

Interviewers asked elderly respondents whether they were or someone else was more familiar with their private health insurance policies. If someone else was said to be more familiar, the interviewers tried to contact that person to find out the desired information about health insurance coverage, including whether the original respondent was likely to drop his or her health insurance policy in the wake of the Medicare Catastrophic Coverage Act. Curiously, only 14 of the 391 policy owners said that someone else was more familiar with their insurance. In these 14 cases, we used the information from the original elderly respondent to construct all variables except those concerning their experience and satisfaction with private health insurance. We suspect that the reason that so few people claimed that someone else was primarily responsible for insurance decisions was that the question was asked well after the interview had begun, and respondents were reluctant to admit that they were not the best person to speak with or did not want to bother other household members.

Table 1 shows some of the characteristics of the sample, in comparison with national figures published in the *Statistical Abstract of the United States*.[4] Although the survey sample differs somewhat from the national

Table 1 The Sample Compared to the Elderly Population as a Whole

Demographic Characteristic	HIAA Sample	National Sample*
Age		
65-74	65.2%	59.3%
75 and over	34.8	40.7
Sex		
Male	33.6	40.6
Female	66.4	59.4
Race		
Black	5.8	8.4
Hispanic	0.4	3.0
Caucasian	93.8	88.6
Marital Status		
Married	47.9	55.7
Unmarried	52.1	44.3
Education		
0-11 Years	38.2	48.8
High School Graduate	32.1	30.8
Some College	29.7	20.3
Employment Status		
Employed	7.7	10.7
Not Employed	92.3	89.3

*Source: *Statistical Abstract of the United States*, 1989 (see note 4)

figures, no clear pattern emerges. Compared with the national figures, survey respondents were more likely to be (or claim to be) somewhat younger, female, white, unmarried, better educated and not employed. Some of the differences probably can be explained by the nature of the survey. For example, blacks may have been underrepresented because individuals who were eligible for both Medicare and Medicaid (the poorest of the elderly) were excluded from the sample since they have little need for supplemental health insurance. Hispanics may have been underrepresented for the same reason and because of language problems over the telephone. Furthermore, both groups could have been underrepresented because they are less likely to have telephones. On the other hand, younger Medicare beneficiaries might be over-represented because they are more likely to live in private residences.

Other differences, however, are more perplexing. For example, it is odd that the survey sample exhibits traits indicating both higher economic

status (e.g., more education) and lower economic status (e.g., female, unmarried). One possible explanation is that respondents were less truthful about some personal characteristics (particularly education) to Response Analysis interviewers than they may be to national census takers. The reason that the survey may have overrepresented females (and therefore probably the unmarried as well) may have been that females were more likely to answer the phone and were more willing to be interviewed. Although an attempt at randomization was made by asking to interview the elderly person with the next birthday if there were two over age 65 in the household, it is possible that in some cases this request was not followed by respondents. Finally, since this sample was the result of a random selection process, some difference ffrom census figures is to be expected.

◆ The Elderly's Knowledge of Medicare Changes

One purpose of the survey was to determine the degree to which the older Americans understand the recent changes in Medicare. On one hand, their knowledge levels might be high given the extensive amount of press coverage concerning the changes. On the other hand, previous research has shown that the elderly appear to understand few of the specifics of their Medicare coverage.[5]

To assess knowledge, we asked nine questions about the recent changes in Medicare to 303 individuals: the half of the split sample of owners to whom we did not explain recent changes (N=194), and those who did not own private insurance policies (N=109). For each item, interviewers asked respondents to indicate whether the statement was correct, incorrect or that he or she did not know. The "don't know" choice was included to reduce the amount of guessing, and therefore better gauge true knowledge levels.

The nine questions (with answers in brackets) represented six primary aspects of the legislation:

- ***Hospital Coverage***
- With the new catastrophic coverage, Medicare will cover all costs of a hospital stay, except for an initial payment of about $500 [True].
- ***Physician Coverage***
- Medicare will cover all costs that your physician charges you for services [False].
- Medicare will cover all reasonable costs of physician services after the first $1,400 or so per year is paid [True].

- ***Nursing Home Coverage***
- Medicare will cover most of the costs associated with a six-month nursing home stay [False].
- ***Prescription Drug Coverage***
- When the new legislation is fully phased in, Medicare will cover some of the costs associated with prescription drugs [True].
- Medicare will pay 80 percent of all reasonable prescription drug costs during a year [False].
- ***Spousal Impoverishment***
- Medicare will provide some protection to the husband or wife of a nursing home patient to avoid loss of all of his or her assets in paying for nursing home care [True].
- ***Financing***
- All people who have Medicare will be required to contribute toward the cost of the new Medicare benefits through an increase in the monthly premium [True].
- All people who have Medicare will be required to contribute toward the cost of the new Medicare benefits through an increase in their federal tax payments [False].

Some issues are not as cut-and-dried as the questions indicate. For example, only those above the federal poverty level are required to contribute $4 a month in additional premiums; we did not believe that this nuance would affect our results, particularly because people who received Medicaid benefits were excluded from the survey. Another example concerns the nursing home benefit. Although the new legislation could, in theory, provide coverage for up to five months, the press has made it clear that the vast majority of nursing home stays still will not qualify for Medicare coverage. Finally, it is actually Medicaid rather than Medicare that provides spousal impoverishment protection under the catastrophic legislation; however, it might have been extremely confusing to explain both the Medicare and Medicaid programs in the survey process.

Table 2 shows the percentage of sample members who responded correctly to each question. Most noteworthy is that there is very little knowledge about Medicare changes. For the nine questions, the average percentage of correct answers was only 28 percent. Knowledge levels varied a great deal, however, from question to question. For example, 47

Table 2 Respondents Correctly Answering Selected Questions

Item	Percent of Correct Responses
Covers all hospital costs except deductible	34.1%
Doesn't cover all physician charges	46.5
Covers all reasonable charges after $1,400	15.5
Doesn't cover most costs of six month nursing home stay	19.1
Covers some prescription drug costs	38.6
Doesn't cover 80% of all prescription drug costs	23.5
Provides spousal impoverishment protection	18.5
All must pay monthly premium	48.5
All do not have to pay additional income taxes	8.9

percent knew that Medicare did not cover all physician charges, but only an extremely low number (9 percent) was aware that not everyone must pay more in federal taxes to finance the program.

Other findings were just as surprising. For example, despite lengthy congressional debate on Medicare's lack of coverage for long-term nursing home care, only 19 percent of respondents knew that Medicare would not cover most of the costs of a six-month nursing home stay. Many observers would claim that the centerpiece of the new legislation is added prescription drug coverage, yet only 39 percent knew that Medicare would include any such benefits.

We conducted t-tests and one-way analyses of variance (that is, statistical tests to examine whether the difference between two or more groups of people is greater than the normal variation of numbers) to determine if knowledge levels varied along a number of characteristics. We found (with significance levels in parentheses) that those with the highest scores were younger (10 percent), married (1 percent), Caucasian (1 percent), better-educated (1 percent) and wealthier beneficiaries (1 percent). Not surprisingly, education was a particularly important determinant of knowledge. For example, beneficiaries who had attended at least some college correctly answered an average of 3.5 questions, compared to only 1.7 for those who did not finish high school. Nevertheless, the best educated of the elderly correctly answered only about one-third of the questions, underscoring how poor Medicare knowledge really is.

The elderly have formulated opinions about the Medical Catastrophic Care Act; unfortunately, these opinions appear to be based more on ignorance than facts. Given that this piece of legislation has received an unprecedented amount of press coverage — beginning with the Bowen Commission study a year before passage of the legislation and continuing to this day — it is indeed perplexing how little of this information has been assimilated.

◆ Concern about the Remaining Gaps in Medicare

We asked respondents six questions regarding their concern about some of the gaps that remain in Medicare even after passage of the Medicare Catastrophic Care Act. These questions were asked of all 500 respondents. (Owners of private policies were asked what their level of concern would be if they did not have any insurance to supplement Medicare.) Respondents were given four choices: "very concerned," "somewhat concerned," "not too concerned" and "not at all concerned." The specific expenses addressed were:

- The first $560 of a hospital stay;
- The $1,400 (approximate) in Part B payments;
- Doctor bills higher than the Medicare allowed amount;
- The first $600 in prescription drug costs;
- Paying for a long nursing home stay; and
- Paying for dental care.

Figure 1 shows the proportion of respondents who were either very concerned or somewhat concerned about these expenses. The message that emerges is that the elderly are very worried about incurring any out-of-pocket costs. Stated differently, it appears that they strongly desire complete insurance coverage (i.e., with no deductibles or coinsurance), which probably explains why so few plan to drop their private insurance coverage in the wake of the Medicare changes.

Fully 78 percent said they were "very concerned" about long nursing home stays and 71 percent felt "very concerned" about excessive physician charges. Both of these expenses are unknowns and have the potential of causing great financial hardship. It is interesting that respondents also are concerned about fixed expenses that by most standards are not terribly high, especially when compared to supplemental health insurance premiums. (As discussed later, our respondents reported paying mean annual premiums of $718.) For example, 66 percent were

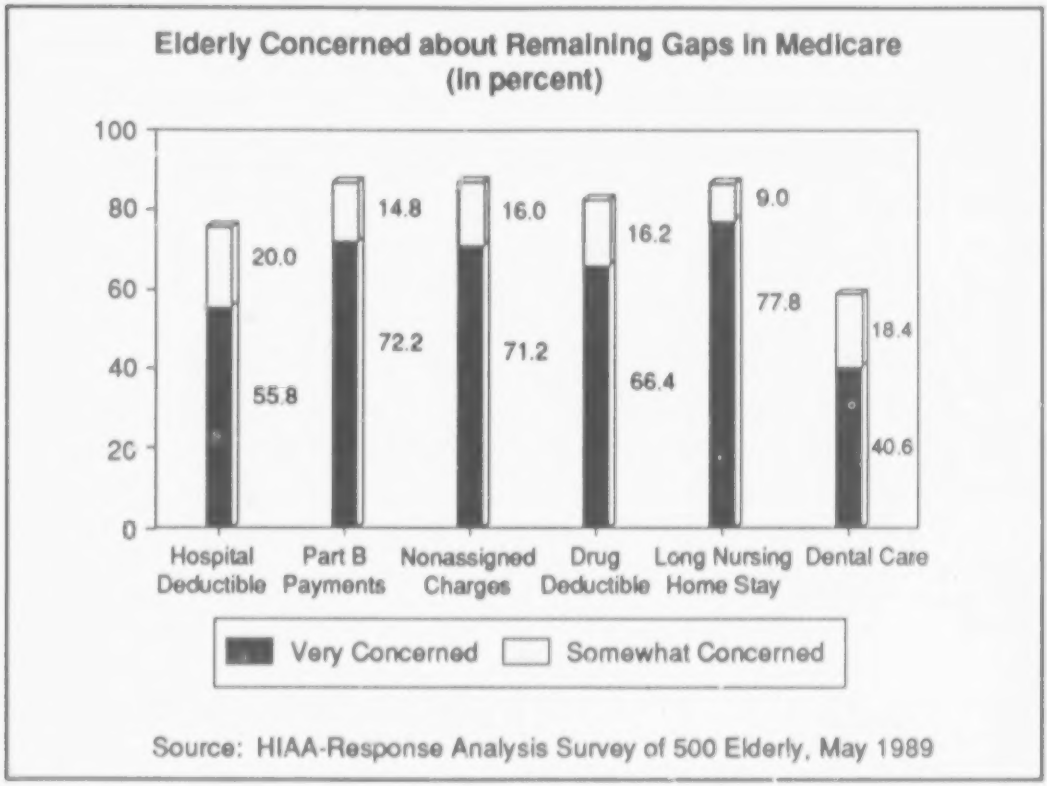


Figure 1

very concerned about the first $600 of prescription drug costs and 56 percent were very concerned about the Part A hospital deductible.

We do not mean to imply that the elderly are mistaken in their concern — obviously, it is a subjective assessment. Rather, the picture that emerges from the findings is a group of people with a weak understanding of the Medicare program, and who appear to deal with the resulting uncertainty by desiring coverage for any remaining gaps. Concern over lingering gaps in Medicare may prompt many to retain their private supplemental insurance, an issue addressed later.

We conducted chi-square tests (that is, statistical significance tests that show whether there is a relationship in a categorical variable between two or more groups) to examine variables associated with the level of concern. The most consistent finding was that people with lower incomes tended to be more concerned about all of the remaining gaps in Medicare. For example, whereas 73 percent of those with annual incomes below $10,000 said they were "very concerned" about the $560 Part A deductible, this was true of only about 36 percent of those with incomes above $20,000. Two other consistent findings across the six

"concern" questions were that younger beneficiaries were more concerned than their older counterparts, particularly with regard to long nursing home stays and that the less educated were more concerned about Medicare's gaps. We have no ready explanation as to why younger beneficiaries expressed a greater degree of concern than their older counterparts. Another curious finding was that whites expressed more fear than nonwhites about the costs of long nursing home stays, but less concern about dental costs.

◆ Attitudes about Medicare and Medicare Changes

The survey measured respondents' satisfaction with Medicare benefits and costs both before and after the recent changes. Here the split-sample technique becomes important. We are particularly interested in whether those to whom we explained the changes in Medicare's benefits responded more positively than those in the control group, who did not receive an explanation of the new benefits. The results are from the 78 percent of respondents who own private insurance.

There were five questions concerning their satisfaction with Medicare:

- How satisfied they were with Medicare's benefits before the legislation was enacted;
- How satisfied they are with program benefits after the legislative changes;
- How satisfied they were with Medicare premium costs before the changes;
- How satisfied they are with Medicare premium costs and any additional income taxes they may have to pay; and
- Their overall opinion of the new legislation.

For each of the first four questions, respondents were given four choices: "very satisfied," "somewhat satisfied," "not too satisfied" and "not at all satisfied." The first two categories fit into an overall "satisfied" category and we eliminated "don't know" responses so that the resulting percentages indicate the level of satisfaction among those with an opinion.

Figure 2 shows satisfaction levels with Medicare benefits before and after the legislation passed. An unexpected finding was that among both those to whom new benefits were explained and those to whom they were not, respondents indicated more satisfaction with Medicare benefits before these benefits were expanded. In both groups, approval levels declined by more than 10 percentage points. The findings with

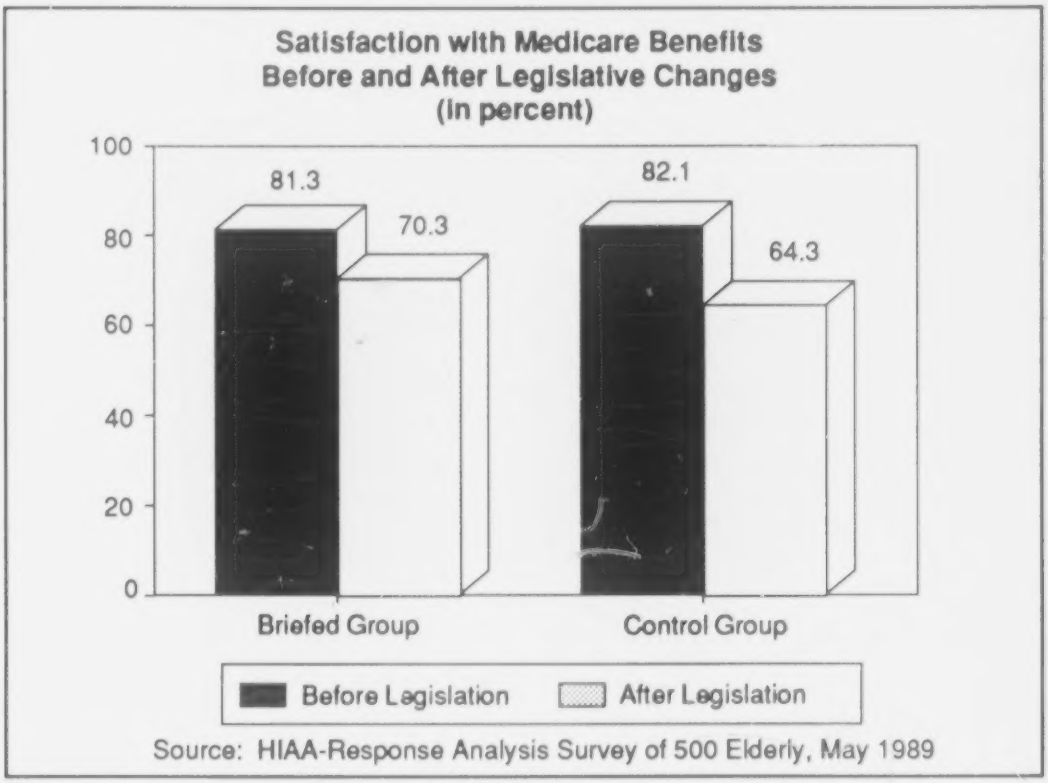


Figure 2

regard to costs are shown in Figure 3. Whereas more than 70 percent of respondents were satisfied with their payments before the legislation, satisfaction fell precipitously to around 30 percent afterwards. Furthermore, similar levels of dissatisfaction were recorded among different income levels. We believe that this strong dissatisfaction with the financing mechanism of the new law has colored the elderly's view of the benefits. This in turn might explain the anomalous result that they preferred the old, more limited Medicare benefit package.

We conducted chi-square tests to determine characteristics associated with Medicare satisfaction levels (both benefits and costs) both before and after the new legislation passed. The only statistically significant pattern was that those in fair or poor health were less unsatisfied with program costs after the new legislation (significant at the 10 percent level).

Whether most elderly people approve overall of the recent changes is an important question. To address this, we asked respondents:

> Taking into account both the benefits and costs [of the Medicare Catastrophic Care Act] to you, which of the following describes your opinion about the changes in Medicare?

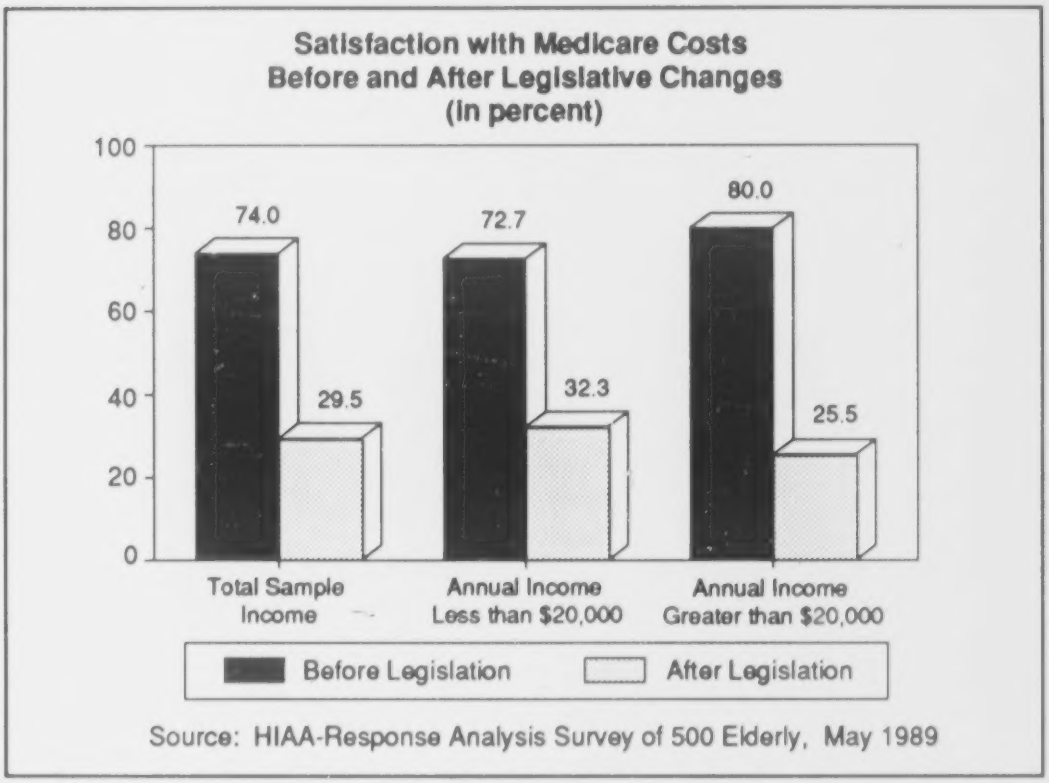


Figure 3

Do you (1) strongly support the changes, (2) support the changes somewhat, (3) oppose the changes somewhat or (4) strongly oppose the changes?

Table 3 presents the results for all respondents and for each of three groups: the owners of private insurance to whom benefits were explained, the control group of owners who were not given an explana-

Table 3 Overall Opinion about the Medicare Catastrophic Coverage Act

	Briefed Owners	Control-Group Owners	Nonowners	Total
Strongly Support	9.2%	6.7%	5.5%	7.4%
Somewhat Support	24.5	27.8	24.8	25.9
Somewhat Oppose	21.9	17.5	11.9	18.0
Strongly Oppose	25.0	25.8	18.3	23.9
Don't Know	19.4	22.2	39.4	24.9

tion and nonowners. Looking first at the overall results in the last column, most of those who gave an opinion opposed the legislation. Whereas 33 percent of respondents strongly or somewhat supported the changes, 42 percent strongly or somewhat opposed the changes. Furthermore, opponents were more fervent: whereas 7 percent were strongly supportive, 24 percent are strongly opposed the changes. About one-fourth of respondents did not give an opinion. Chi-square tests of significance found no significant variables associated with respondents' overall opinions of the legislation.

No clear pattern emerges from the split sample. When people are given information about the changes in Medicare's benefits, they do not appear to be more in favor of the legislation than do members of a control group. In and of itself, this implies that public support may not grow very much as people become more familiar with changes in the Medicare law.

◆ Who Owns Supplemental Insurance Policies

Figure 4 shows the percentage of sample members who own policies, as well as those who own more than one policy. Since individuals who are jointly eligible for Medicare and Medicaid are excluded from the survey (they typically do not buy private coverage) ownership rates are higher. We found that 78 percent of those surveyed own Medicare supplemental policies, a figure identical to estimates made by the Congressional Budget Office.[6]

Approximately 85 percent of owners said they owned one supplemental policy, with the remaining 15 percent claiming to own two or more. Only 10 sample members (2.6 percent of owners) reported owning three or more policies; one sample member claimed to own as many as six.

There have been a number of previous studies on the characteristics of policy owners and nonowners.[7] Our results are consistent with most of these other studies. We performed chi-square tests and found that the following groups were most likely to own one or more policies (significance level in parentheses): individuals age 80 and under (10 percent), whites (1 percent), married (5 percent), better educated (1 percent), higher incomes (1 percent) and those reporting better health status (10 percent). Although most of the differences were not terribly great, race was a notable exception. Whereas 82 percent of whites owned policies, only 33 percent of nonwhites did. Although those with higher incomes were more likely to own private policies, there was no relation-

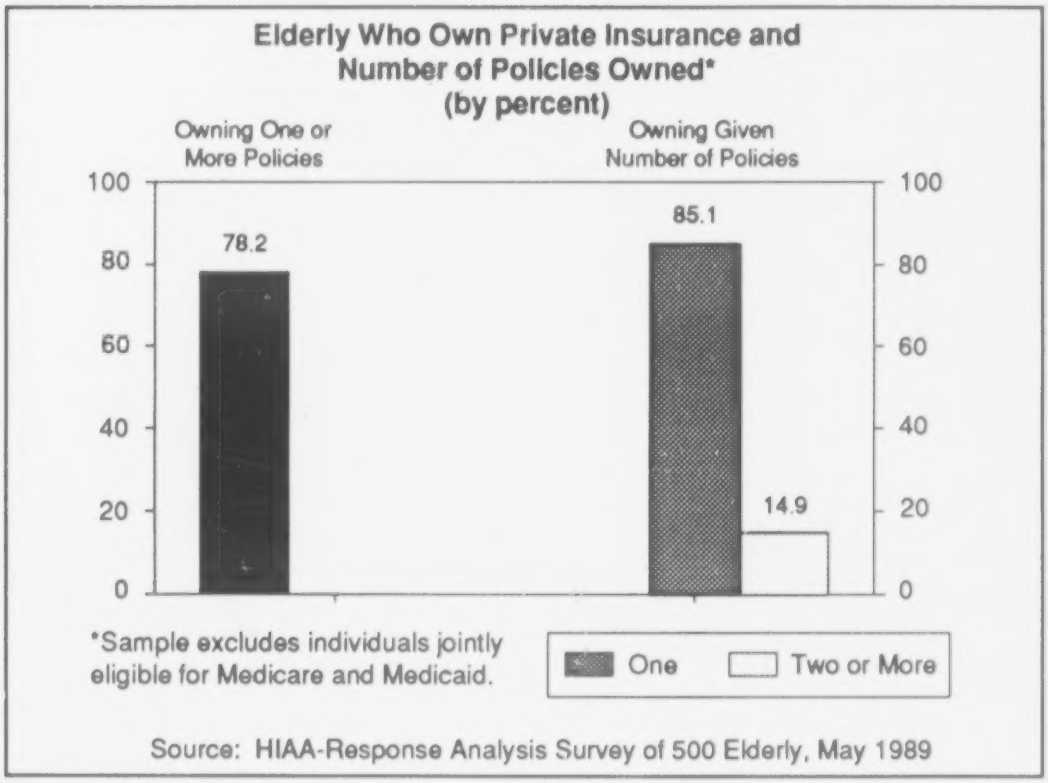


Figure 4

ship between ownership and income for income levels beyond $10,000. These patterns with regard to both race and income are consistent with previous studies on the determinants of policy ownership.[8]

We also conducted chi-square tests to determine what factors were associated with owning multiple policies. The only demographic or health status measures that were statistically significant (level of significance in parentheses) were that those with higher incomes were more likely to own multiple policies (5 percent) and those who had visited the doctor more in the previous year were more likely to own more than one policy (10 percent). This latter finding may simply indicate a utilization response. People who purchase more than one policy may demand more physician visits.

The mean and median annual premiums for private supplemental insurance policies reported by respondents is shown in Figure 5. The mean was $718 and the median, $640.[9] The Congressional Budget Office estimated that the typical premium for a Medicare supplemental policy was $542 in 1987.[10] Higher figures reflect the much-publicized fact that policy premiums have risen substantially since that time.[11] We con-

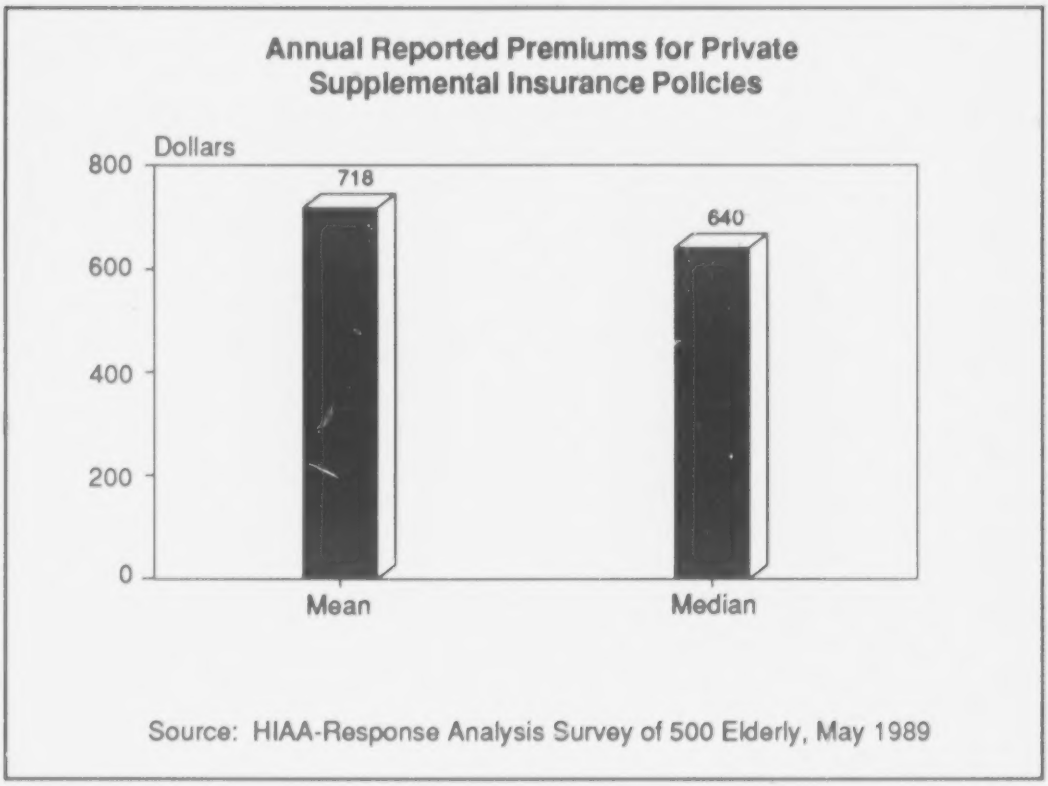


Figure 5

ducted t-tests on a number of individual characteristics that might be associated with higher premiums, but could find no variable that was statistically significant even at the 10 percent level.

We also asked respondents whether their premiums had increased during the previous 12 months. While respondent recall might be unreliable, particularly if the premium were being paid by an employer or former employer, we wanted to determine whether satisfaction with private policies is affected by premium increases (an issue examined later in the findings). Figure 6 shows that 47 percent of respondents indicated that their premiums increased, but 40 percent said that there was no change or that they actually decreased. Of those reporting an increase, the median was about 20 percent, or $12 a month.

Respondents were asked to indicate which of the following statements best described the policy(ies) they own (if they owned more than one policy, questions applied to the one with the highest premium):

- It pays many of the medical expenses not covered by Medicare; these are sometimes called "Medigap" or "Medicare supplement" policies;

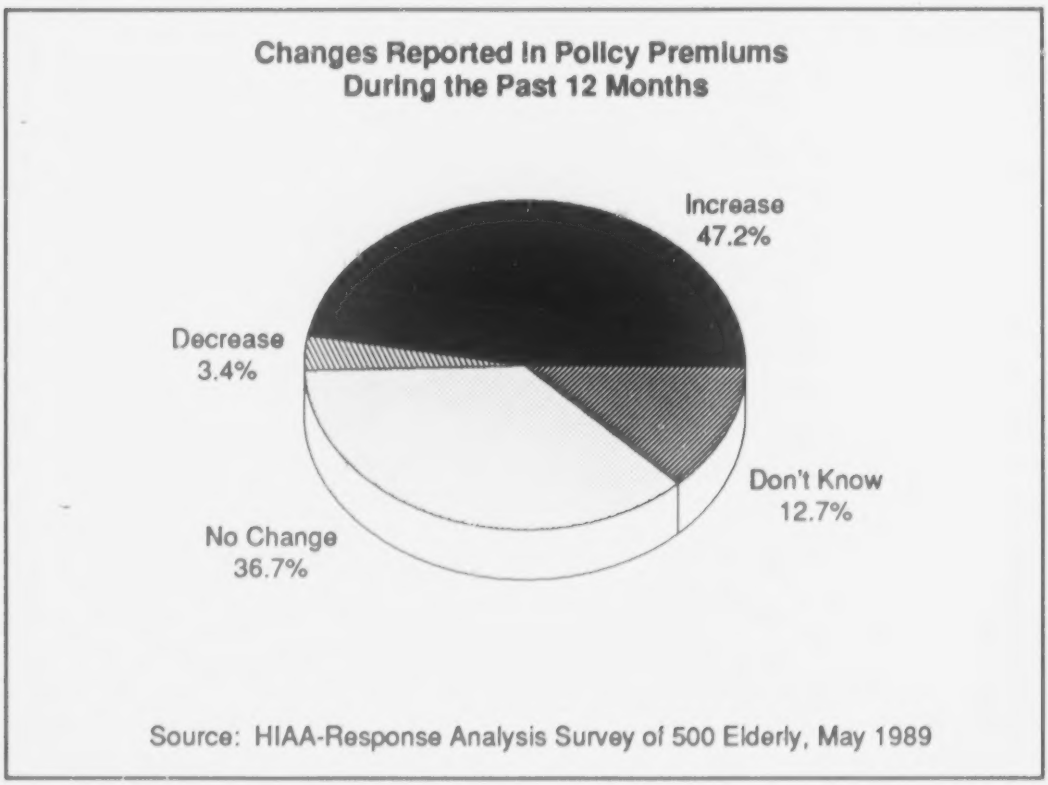


Figure 6

- It pays you a fixed amount of money for each day you spend in the hospital (hospital indemnity);
- It pays only for long-term care in a nursing home or care at home; or
- It pays only if you have a specific disease such as cancer.

Figure 7 shows the responses. The large majority of policy owners (90 percent) reported having Medicare supplemental policies. The next highest (8 percent), was for hospital indemnity, while only 1 percent each reported having specified disease or long-term care policies. It is possible that the non-Medicare supplemental policies were under-reported because, among those people who owned more than one policy, these policies were not their primary policy.

We asked those respondents who did not obtain their policies through an employer or former employer how they purchased their policies. The choices were: (1) through a group or association; (2) from an insurance company or agent; (3) through the mail, or (4) through an HMO. Figure 8 shows that 90 percent purchased policies through an association or group, or through an insurance company or agent of such a company.

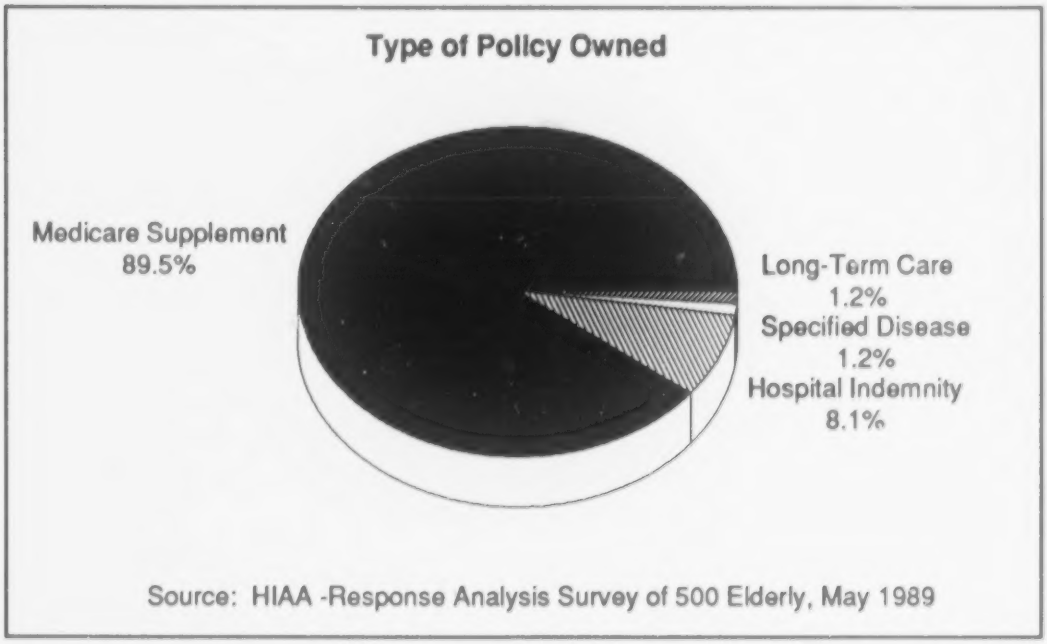


Figure 7

We also asked all respondents their desired method of purchasing a policy if they were doing it again. Not surprisingly, those who acquired their policies through an association or group preferred that method,

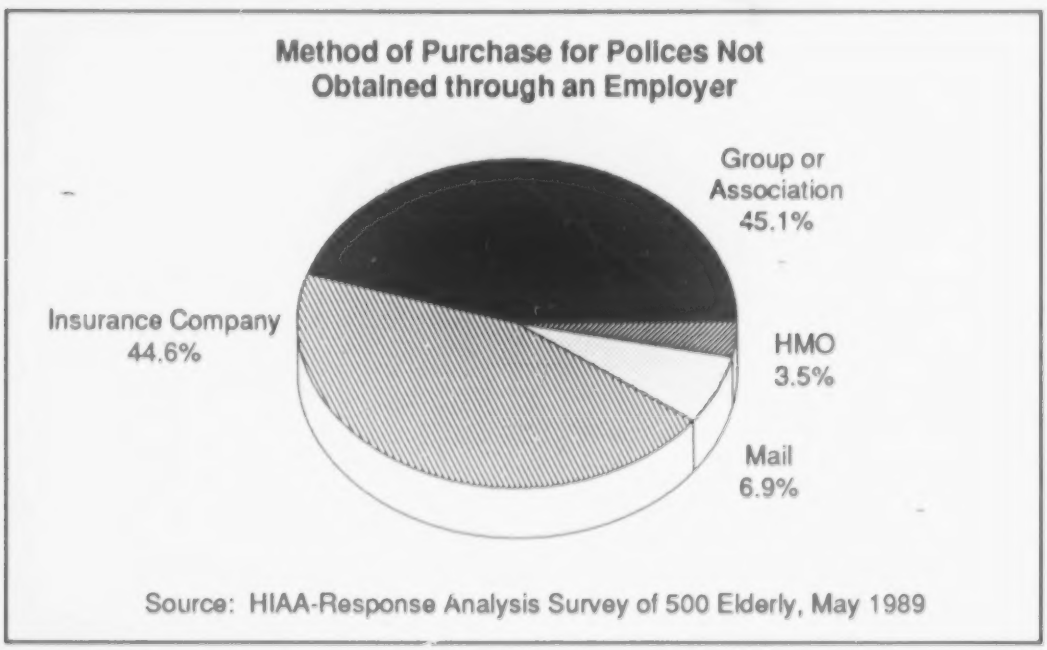


Figure 8

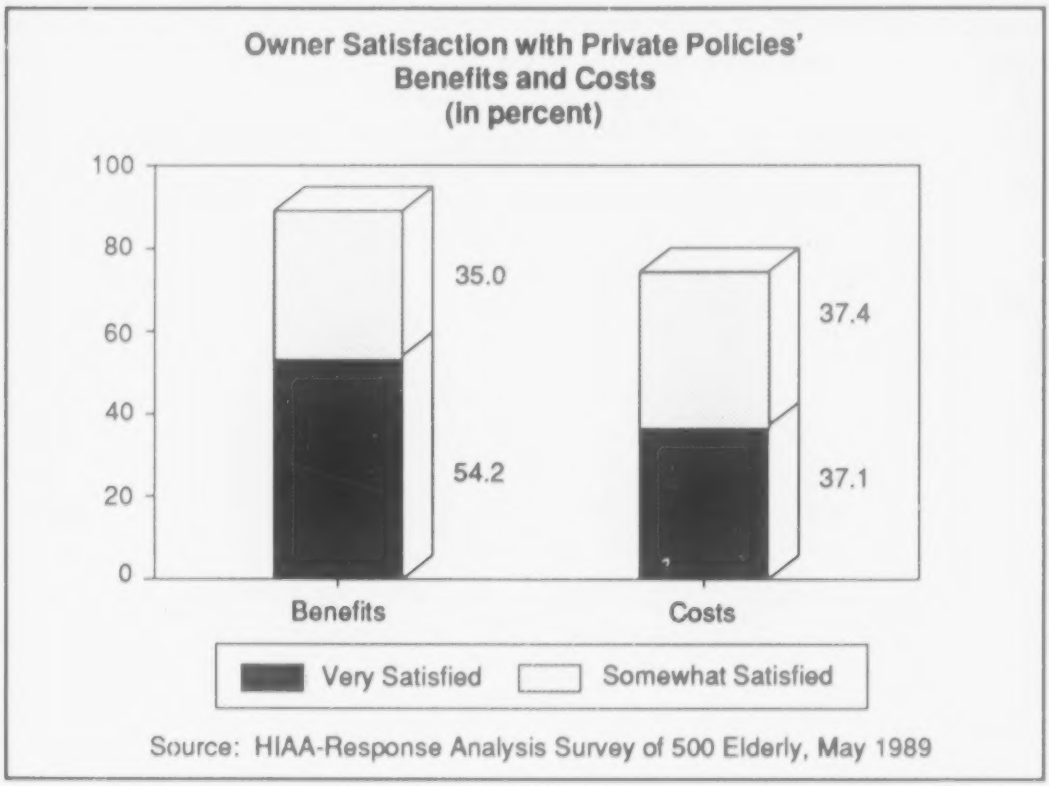


Figure 9

whereas those who used an insurance company thought that was best. People who acquired their policies through an employer or former employer overwhelmingly preferred that method.

◆ Satisfaction with Private Insurance Policies

We asked policy owners several questions about their satisfaction with their private insurance policies. The first two questions concerned satisfaction with policy benefits and costs. Respondents were given four choices: "very satisfied," "somewhat satisfied," "not too satisfied" and "not at all satisfied." (Respondents who answered "don't know" have been excluded from these tabulations.) Figure 9 shows that nearly 90 percent of owners report satisfaction with policy benefits and almost three-quarters with policy costs. These figures are a little higher than the Medicare satisfaction levels before the new legislation reported in Figures 2 and 3, and much higher than current Medicare satisfaction levels. Satisfaction with costs could be associated with whether the person said his or her premiums increased during the previous 12 months. People whose policy premiums had not increased were twice as likely to be "very satisfied" with policy costs (significant at the 1 percent level).

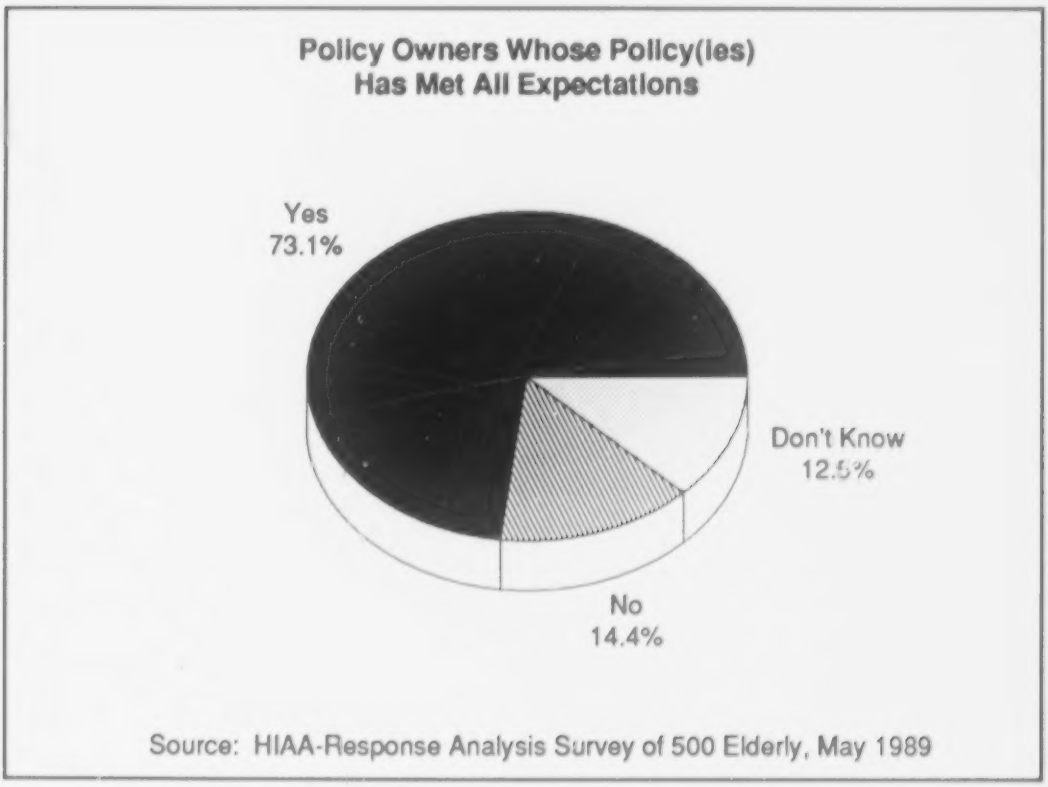


Figure 10

We conducted chi-square tests to determine characteristics associated with policy satisfaction, and found (with level of significance in parentheses) that high school graduates were more satisfied with both the benefits (1 percent) and costs (1 percent) of their policies. Those who said they were in only fair or poor health were less satisfied both with policy benefits (1 percent) and costs (5 percent).

Another question on the survey asked whether the respondent's private insurance policy "met all your expectations." Figure 10 shows that, for a large majority of owners, their policies did so. Almost three-fourths said that their policies met all expectations, while only 14 percent said that they did not. (The remaining 13 percent did not know, possibly because they had not yet used any policy benefits.) The most frequently noted shortcoming was physician care, followed by hospital, prescription drugs and dental services.

◆ Effects on the Private Market

One of the great unknowns about the new Medicare coverage is how it will affect the private insurance market. The legislation does remove

some of the reasons that elderly persons might have for purchasing supplemental coverage. In particular, two glaring gaps in Medicare were filled by the legislation. Beneficiaries are no longer at financial risk for hospital stays that exceed 60 days and there is now a cap on their 20 percent Part B coinsurance liability. The Medicare prescription drug coverage, when fully implemented, also removes some of the risks of incurring very high levels of out-of-pocket costs.

On the other hand, the legislation falls short of covering all health care costs. There are, of course, the remaining beneficiary financial responsibilities for hospital care ($560), Part B ($1,370 plus charges above the Medicare allowed amount for nonassigned claims), prescription drugs ($600 plus 20 percent of additional costs), as well as most nursing home care. Whether these remaining gaps would be sufficient to cause the elderly to retain their supplemental insurance policies was one of the most important research questions addressed in the survey.

As before, we employed the split-sample technique, to determine if there were differences among those who were briefed about the new Medicare benefits versus those who did not receive additional information. One could argue that the former group's responses might be more predictive of the long-run response, because over time it is likely that the elderly will gain additional knowledge.

Respondents were asked one of two questions, depending on whether they said they owned one policy or more than one policy. If a respondent owned one, we asked:

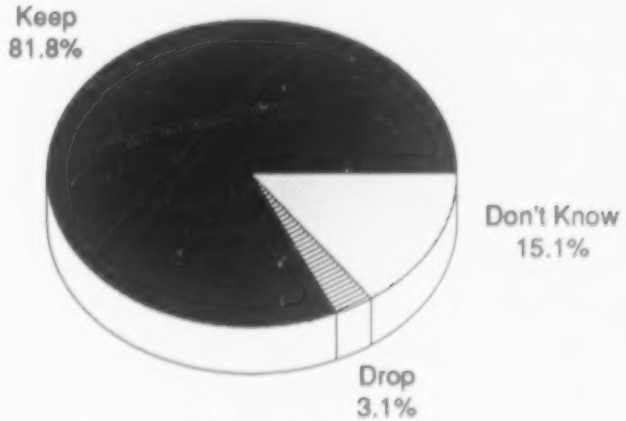
> What do you think you are likely to do once the new Medicare benefits are fully implemented? Do you plan to keep the additional health insurance policy that supplements Medicare or do you plan to drop it?

If a respondent owned more than one policy, the wording was:

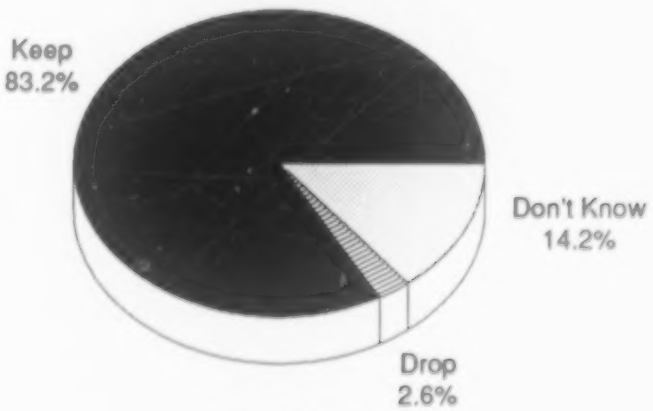
> Do you plan to keep all of the additional health insurance policies you have that supplement Medicare, drop some of them or drop all of them?

We have combined answers to these questions into three categories: keep all policies; drop one or more policies; or don't know. Figure 11 shows the response for the two groups, which are nearly identical. More than 80 percent in both groups reported plans to keep private insurance policies. Only 3 percent of each group had plans to drop one or more policies and about 15 percent did not know what they would do.

Private Insurance Owners Who Plan to Keep or Drop Their Policies



Briefed Group



Control Group

Source: HIAA-Response Analysis Survey of 500 Elderly, May 1989

Figure 11

Because insurers are particularly interested in the types of policyholders who plan to drop their supplemental insurance coverage, we performed a logistical regression analysis to examine the determinants of the decision. Logistical analysis is a technique that allows one simultaneously to examine predictors of a yes-or-no variable, such as whether a person plans to keep or drop an insurance policy. Few respondents said they planned to drop their policies. Therefore, we defined the dependent variable as equal to 1 (or "yes") only if the respondent said that he or she would keep all policies and 0 (or "no") if the person planned to drop one or more policies or had not decided. Even defined this way, only 17 percent of respondents were assigned a value of zero. Predictor variables included: a variety of demographic, health status and insurance policy characteristics; a measure of concern about out-of-pocket health care costs; measures of satisfaction with Medicare as well as private insurance policies; and a variable indicating whether or not the person was briefed about changes in Medicare benefits.

Results of the logistical analysis revealed that very few factors had a significant effect on the decision to keep supplemental insurance. Perhaps most notably, those who were briefed about the new Medicare benefits were no less likely to say they would keep their policies (a finding consistent with the data shown in Figure 11, page 23). Other findings of interest were that:

- Better-educated individuals were no less likely to say they would keep their policies;
- Those most concerned about out-of-pocket costs were no more likely to say they would keep their policies; and
- Those with higher premiums and those whose premiums increased in the past year were no less likely to say they would keep their policies.

There were only three variables that were statistically significant predictors in the decision to keep a Medicare supplemental policy(ies) (significance level in parentheses). Individuals who claimed to be in fair or poor health were more likely to say they would keep their policies (5 percent). Those who originally obtained their policies through an employer also were more likely to keep them (1 percent). But individuals who said that their policies did not meet all of their expectations said they were less likely to keep them (1 percent).

This last variable had the largest overall effect on the decision to keep or drop private insurance. Table 4 shows that among the 14 percent of respondents who reported that their policies did not meet all of their

Table 4 Policy Owners Who Plan to Keep or Drop Their Policies

	Policy Met All Expectations	Policy Did Not Meet All Expectations
Plan to Keep Policies	86.5%	60.4%
Plan to Drop Policies	1.1	13.2
Don't Know	12.4	26.4

expectations, 40 percent plan to drop a policy or do not know whether they will, versus only 14 percent for those whose policy has met all expectations (significant at the 1 percent level).

Putting these findings together, it appears that the primary reason that some individuals may not retain their private insurance policies is not because of the Medicare Catastrophic Care Act's benefits, but because they are dissatisfied with the private insurance policies. One could easily imagine these people switching to another policy. Thus it appears that even though the catastrophic legislation will change the content of policies, people will continue to purchase them (although one must interpret these results with some caution as it may be too early for most people to have made final decisions about their insurance).

◆ The Appeal of Medicare Supplemental Insurance

There are four major findings that emerge from this survey of Medicare beneficiaries. First, despite the publicity that surrounded the passage of the Medicare Catastrophic Coverage Act, the elderly still know very little about the most basic aspects of the legislation.

Second, in spite of poor understanding, a large majority of the elderly have formed opinions about the legislation and most of them do not like it very much. This is also true of those who were briefed about the legislation's benefits by interviewers.

Third, the elderly are very concerned about all of the gaps that still remain in Medicare, even those that are $600 or less (e.g., the Part A and prescription drug deductibles). They appear to have a strong preference towards complete coverage with no deductibles or coinsurance. In fact, in an open-ended question, most who said they planned to keep their policies referred either to the need for additional protection or that Medicare did not cover all costs.

Finally, the elderly are very satisfied with their private health insurance policies. Few plan to drop them, probably because of their fear of any

remaining costs that are not covered by Medicare. Even those who were briefed about the new Medicare benefits did not want to drop their private insurance policies.

Our overall conclusion is that despite passage of the Medicare Catastrophic Coverage Act, program beneficiaries will still purchase supplemental health insurance policies. Older Americans fear any out-of-pocket expenses that are not covered by Medicare. Insurance companies that provide dependable coverage against these expenses will continue to attract elderly buyers.

Notes

1. U.S. Congress, House, Committee on Energy and Commerce, N. Gordon before the Subcommittee on Health and the Environment, March 26, 1986.
2. T. Rice, "An Economic Assessment of Health Care Coverage for the Elderly," *The Milbank Quarterly* 65, no. 4 (1987):488.
3. T. Rice and J. Gabel, "Protecting the Elderly Against High Health Care Costs," *Health Affairs* 5, no. 3 (Fall 1986):5.
4. U.S. Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States*, 109th Ed., 1989.
5. N. McCall, T. Rice and J. Sangl, "Consumer Knowledge of Medicare and Supplemental Health Insurance Benefits," *Health Services Research* 20, no. 6 (February 1986, Part I):633.
6. See note 1.
7. For a review of the literature, see T. Rice and N. McCall, "The Extent of Ownership and the Characteristics of Medicare Supplemental Policies," *Inquiry* 22 (Summer 1985):188.
8. See note 7.
9. Premium figures do not include policies owned by individuals who worked 30 or more hours a week, since such policies are usually paid for entirely by employers.
10. S. Christensen, S. Long and J. Rodgers, "Acute Health Care Costs for the Aged Medicare Population: Overview and Policy Options" (Washington, D.C., Congressional Budget Office, May 1987).
11. M. Tolchin, "Recipients of Medicare Also Face Rise in Cost of Private Insurance," *The New York Times*, February 12, 1989.

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